

The Classification of Real Property

Prepared by the Michigan State Tax Commission



Issued April 17, 2007

Definitions and Introduction

What is Property Classification?

Michigan Law MCL 211.34c requires that not later than the first Monday in March each year, the local assessor shall classify all assessable property in his or her jurisdictional boundaries according to the definitions contained in this section.

How many classifications of real property are there?

Six. They are:

- Residential
- Agricultural
- Commercial
- Industrial
- Developmental
- Timber Cut-over

Does the classification of my property affect my use of the property?

Classification of property is strictly for equalization purposes and does not affect your use of the property.

What is equalization?

Equalization is the process assessors use to assure uniformity in the level of assessment from one property to another, among the classifications within each assessment jurisdiction, among the cities and townships in each county, and among all of the counties within the State of Michigan.

Should my property be classified according to how I'm currently using the property?

Property is classified based on the highest and best use, which may not necessarily be the current use of the property.

What is the relationship between classification for assessment purposes and zoning?

While the zoning of a particular property may be an influencing factor, the zoning does not dictate the classification. A parcel may be zoned Agricultural, but if the highest and best use is determined by the assessor as residential, then the classification of the property would be Residential.

Can a property have more than one classification?

No. MCL 211.34c (5) states that if the total usage of a parcel includes more than one classification, the assessor shall determine the classification that most significantly influences the total valuation of the parcel.

For example, a parcel of land used for residential purposes that also includes a use that is commercial or agricultural in nature, will be classified by the use that has the greatest influence on the value of the property.

Residential Property Classification

What type of property is classified residential?

Platted or unplatted parcels, with or without buildings, and condominium apartments located within or outside a village or city, which are used for or probably will be used for residential purposes.

Parcels that are used for or probably will be used for recreational purposes, such as lake lots and hunting lands, located in an area used predominantly for recreational purposes.

Does there have to be a house on the property for it to be classified residential?

The type of property frequently appealed in this classification is vacant acreage. When the local market for acreage is for recreational use, it shall be classified residential.

Recreational property is classified residential even though there is no house or I don't live there?

There is no separate classification for recreational property. Lands whose primary use is for recreational activities such as hunting, fishing, camping, snowmobile use, mushroom hunting, photography, bird watching, and other recreational pursuits are properly classified as residential.

What about my cottage or hunting camp?

A vacation cottage or camp is a recreational property and should be included in the residential classification.

A hunting or fishing camp owned by an individual or a group of individuals is a recreational property and should be included in the residential classification provide a fee is not charged to users of the property.

What about a small apartment building?

A single housing unit or single structure consisting of four or less sub units is generally included in the residential classification.

My house is used as a bed and breakfast. Is it residential or commercial?

Houses used as Bed and Breakfast establishments are sometimes classified residential and sometimes commercial.

If the main use of the house is as a private residence and the bed and breakfast is only a minor use, the property should be classified residential. If the primary use is to generate income similar to a motel, the property should be classified commercial.

Agricultural Property Classification

What type of property is classified Agricultural?

Agricultural real property includes parcels used partially or wholly for agricultural operations, with or without buildings.

What is an agricultural operation?

Agricultural operations included:

Farming in all aspects that include the cultivating of soil.

Growing and harvesting any agricultural, horticultural, or floricultural commodity.

Dairy farming.

Raising livestock, to include, but not limited to, cattle, sheep, new world camelids, goats, bison, privately owned cervids, ratites, swine, equine, poultry, aquaculture, and rabbits. Livestock does not include dogs and cats.

Raising bees, fish, fur-bearing animals, or poultry.

Operating a game bird hunting preserve licensed under part 417 of the natural resources and environmental protection act.

Farming operations that harvest cervidae on site where not less than 60% of the cervidae were born as part of the farming operation.

Raising, breeding, training, leasing, or boarding horses.

Turf and tree farming.

Performing any practices on a farm incident to, or in conjunction with, farming operations.

A commercial storage, processing, distribution, marketing, or shipping operation is not part of the agricultural classification. Neither are gardening, or woodlot/forest management.

Are there minimum size requirements to be classified agricultural?

There are no minimum size or income requirements for the agricultural classification. For instance, viable agricultural operations growing herbs or mushroom crops are possible on just a few acres of land.

My property is zoned agricultural and so I'm automatically classified agricultural, right?

Property that is zoned agricultural may not necessarily be classified as agricultural. While the zoning of a particular property may be an influencing factor, the zoning does not dictate the classification.

If my property is not classified agricultural does that mean I can't farm anymore?

The classification of your property has nothing to do with your ability to farm or your "right" to farm. Classification is for property tax equalization purposes and does not dictate the use of the property.

What is the benefit to my property being classified agricultural?

Property classified agricultural is exempt from certain school taxes (18 mills), the same benefit as a homestead or principle residence exemption.

If my property is not classified agricultural is there a way to still be exempt from the 18 mills?

Yes, your property may be eligible for the Qualified Agricultural Program Exemption. This program is explained in detail in a State Tax Commission publication available on our Web site at www.Michigan.gov/treasury. Please note, application for this exemption must be filed with your local assessor and appeals are made to the Tax Tribunal.

If my property is in a federal set aside program that makes it classified agricultural correct?

The inclusion of some or all of the acreage of a property in a federal set aside program does not necessarily mean that the property should be classified as agricultural.

If the property is in an area of heavy residential or recreational use and the market for agricultural property is limited or nonexistent, the residential classification may be determined as the most appropriate.

If the property is under active cultivation or other agricultural use and the property is in an area of heavy residential or recreational use and the market for agricultural property is limited or nonexistent, developmental may be the appropriate classification.

My property is in the PA 116 program, should it be classified agricultural?

Inclusion of land in the Farmland and Open Space Preservation Act (P.A. 116) does not necessarily mean the property should be classified as agricultural.

There are situations in which a property subject to a farmland development rights agreement could be classified other than agricultural – for example:

A farm in the path of immediate development that has a market value in excess of its value in current use may be classified other than agriculture. The land could be purchased with the intent being for commercial or residential use with the purchaser waiting for the agreement to expire.

A farm with short period left on the agreement that is in the path of residential development. It could qualify for a residential classification because it probably will be used for residential purposes in the immediate future.

Under certain circumstances the agreement can be relinquished. One of these circumstances is when a local governing body determines that relinquishment is in the public interest and it has been zoned commercial or industrial for the preceding 3 years.

What is the definition of tree farming?

Tree farming includes growing nursery stock for wholesale or retail markets as well as Christmas trees for the holiday wholesale or retail markets.

Tree farming typically incorporates the cultivating of land, planting seedlings, periodic removal of weeds and grasses and protecting the stock from insects, and other harmful pests. Nursery stock includes trees being grown for replanting for a landscaping, erosion control practice, or for stocking or restocking a timber land property.

What about a commercial orchard?

A commercial orchard is an agricultural operation.

If I am harvesting for the value of the wood is that tree farming?

Tree farming does not include a forest or woodlot that will eventually be harvested for the value of the wood as lumber or pulp. Further clarification of the difference

between tree farming and forest or woodlands is discussed in Attorney General Opinion Number 5702 dated May 6, 1980.

What about Maple Syrup operations?

The sap collection system of a maple-syrup operation has been determined to be an agricultural use. However the land devoted to the processing and bottling of maple syrup is not part of the agricultural classification.

What is included in the definition of raising bees?

Beekeepers and/or Honey Producers include:

- Hobbyists (less than 25 colonies)
- Sideliners (25 – 300 colonies)
- Commercial (300 or more colonies)

Hobbyists generally produce for themselves, relatives and friends. Sideliners produce honey for sale to consumers and processors. Commercial producers generally produce honey for sale to consumers, processors and distributors of honey and honey products.

So if I am a hobbyist then I can be classified agricultural?

While raising bees is an agricultural activity, raising them as a hobby would usually not result in being classified agricultural. Sideliners are generally a unit of other agricultural operations. Commercial producers may best be classified Agricultural although the commercial storage, processing, distribution, marketing or shipping portions of the operation are not agricultural.

What is a hobby farm and are they classified agricultural?

Hobby farms are not generally part of the agricultural class.

“Hobby farms” usually consist of a home, a few acres (in rare occasions many acres), and out buildings. They frequently include the raising of livestock being used by the property owner such as horses, a few cows, sheep or goats, chickens for household use (meat and eggs), or a small fishpond. Occasionally excess produce from a garden may be sold to a list of clients or at a roadside stand.

Small orchards and gardens used for family consumption are common on the hobby farm. In many cases the hobby farm may have been a part of a past agricultural operation. The farmstead may have been sold or the land may have been sold, but in any case the property value is mainly in the residential property.

What about a captive cervidae operation?

The raising of captive cervidae for sale as breeding stock or for the sale of the meat to a store is an agricultural activity. Habitat manipulation and the feeding of wild cervidae to encourage cervidae to remain in or visit an area to assist in the viewing and/or hunting of the animals is not an agricultural activity.

Commercial Property Classification

How is Commercial property defined?

Platted or unplatted parcels used for commercial purposes, whether wholesale, retail, or service, with or without buildings

Parcels used by fraternal societies

Parcels used as golf courses, boat clubs, or ski areas

Apartment buildings or a complex with more than 4 units

What if I have a small business in my house?

When a small part of a house is used for a commercial or retail operation, and the house is in a residential area, the property will usually be classified residential.

What if my business is in a building that at one time was a residence?

Many areas have structures that were built for residential use but are now used as commercial, office or retail space. These parcels should generally be included in the commercial classification.

My business is located in a transitional neighborhood and now there are both business and residences. Is my house now going to be classified commercial?

Occasionally, a commercial district will expand into a residential area. When this occurs, a homestead or single-family rental home that would otherwise be classified in the residential class may be classified as commercial. This is true if the property's "highest and best use" is for commercial property.

What about a pay to hunt operation?

If 60% or more of the cervidae were born and raised on site, the property is to be classified agricultural.

If less than 60% were born and raised on site, and a fee is paid to hunt and this is the predominant use of the property, then it is classified commercial.

I have a fishing camp that I rent out rooms and gear and boats, would this be classified commercial?

Fish camps that include lodging and/or may include the rental of fishing gear and boats should be classified in the commercial class. If the property includes the owner's residence, the total value of each use must be calculated to determine the proper classification.

If the residence is worth \$200,000 and the commercial uses are worth only half that as example, the land would be classified residential.

What about a youth day camp or residential camp?

Youth activity day camps and residential camps that are not part of an exempt organization should be included in the commercial classification. Examples of this type of property include Eco-adventure camps, nature retreats, sport camps, music camps, and childcare camps. Examples of similar camps that are frequently exempt would be Boy Scout and Girl Scout camps, YMCA day camps, and Church camps.

What if my business is on the same property as my home?

The heavy equipment repair shop of a contractor, logger, or trucker located on the same property as the homestead will require the assessor to determine the value of each use - MCL 211.34c (5).

This also applies to offices, storage or warehouse facilities, fabrication areas, and retail areas in conjunction with homestead properties.

Developmental Property Classification

What is developmental real property?

Developmental real property includes parcels of more than 5 acres without buildings, or more than 15 acres with a

market value in excess of its value in use. Developmental real property may include farmland or open space land adjacent to a population center, or farmland that may be subject to competing valuation influences.

When is this classification typically used?

The developmental classification is normally used in areas of changing use near significant population centers.

Industrial Property Classification

What is industrial real property?

Platted or unplatted parcels used for manufacturing and processing purposes, with or without buildings

Parcels used for utilities sites including for generating plants, pumping stations, switches, substations, compressing stations, warehouses, rights-of-way, flowage land, and storage areas.

Parcels used for removal or processing of gravel, stone or mineral ores, whether valued by the local assessor or by the state geologist

Are gravel pits or sand pits industrial classification?

Gravel and sand pits as well as stone quarries should be included in the industrial classification.

Timber-Cutover Classification

How is timber-cutover property defined?

Timber-cutover real property includes parcels that are stocked with forest products of merchantable type and size; cutover forestland with little or no merchantable products; and marsh lands or other barren land.

What if I bought the land to hunt or camp on?

When a typical purchase of this type of land is for residential or recreational uses, the classification shall be changed to residential.

How do we decide if our property should be timber-cutover or not?

In determining if a wooded parcel should be classified as timber-cutover or another classification, you need to look at the use of the property.

Some questions an assessor may ask before determining that a parcel should be classified as timber-cut over are:

Does the property have a history of timber sales?

Does the owner have a written forest management plan?

Does the property owner keep a business journal with records of expenses, receipts, timber additions, and removal?

Does the owner complete IRS Form T (Timber)?

Frequently, an indication that wooded lands should be classified as other than timber-cutover is when there are buildings on the land, such as a home, cottage, or a hunting and fishing camp.

However, this is not always the case. For example, there may be a building on the property that is used to store timber-harvesting equipment. Or the total usage of a parcel may include more than one classification, but the timber-cutover use

most significantly influences the total valuation of the parcel.

What about marshland or sand dunes?

Marshlands, sand dunes, and other "barren land" that is in areas that cannot be used for recreational or residential purposes are generally included in the timber-cutover classification.